

SECTION II – SPECIFIC COMPLIANCE
FUND 60 – TRUST AND AGENCY FUNDS
FIDUCIARY FUNDS

Trust and agency funds are used to account for resources held and administered by a school district when it acts in a fiduciary capacity. Trust funds are used to account for assets held by the district in a trustee capacity. Agency funds are utilized to account for assets held by the district as an agent for individuals or other funds.

Fiduciary funds report assets that are held in a trustee or agency capacity for external parties and that cannot be used to support the government's own programs. Agency funds report resources held by the reporting government in a purely custodial capacity. Trust funds may be distinguished from agency funds by the existence of a trust agreement, a higher degree of management involvement, and a longer holding period of the fund resources.

Pre-GASB No. 34 Trust Funds (two types):

- 1) Nonexpendable Trust Funds – the principal must be held intact but revenues generated can be expended (i.e. some scholarships and endowments).

Auditor's Note – Activity in the nonexpendable trust funds are required to be included in the General-Purpose Financial Statements. Refer to Exhibits A-4 and A-5 of the pre-GASB 34 financial statements.

- 2) Expendable Trust Funds – both the principal and revenues generated are expendable (i.e. unemployment trust fund).

Unemployment Trust Fund

Effective January 1, 1999, a portion of the employees deductions for unemployment compensation are required to be deposited in the Unemployment Compensation Insurance Trust Fund. This applies to districts that fund New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". The percentage breakdown is as follows:

January 1, 2000 through December 31, 2002

Worker Unemployment	0.100% Submit with Quarterly Contributions Report 0.100% <i>Deposit into individual trust account</i>
Worker Health Care	0.200% Submit with Quarterly Contributions Report
Worker Workforce	0.025% Submit with Quarterly Contributions Report 0.425%

As of January 1, 2003

Worker Unemployment	0.100% Submit with Quarterly Contributions Report 0.300% <i>Deposit into individual trust account</i>
Worker Workforce	0.025% Submit with Quarterly Contributions Report 0.425%

Districts that fund New Jersey Unemployment Compensation Insurance under the "Contributory Method" will continue to remit the entire deduction to the Commissioner of Labor. If you have questions that pertain to withholding and/or filing, it is recommended that you contact the New Jersey Department of Labor at (609) 777-3572.

GASB No. 34 Model - Trust Funds

Districts implementing GASB No. 34 do not include trust or agency fund (fiduciary) activity in the district-wide financial statements. The funds are reported in the fund statements as described further below. When the district is responsible for administering these resources, which are not available for use by the district, the district is acting in a fiduciary or agency capacity. Inclusion of the trust or agency fund resources in the district wide financial statements might mislead the reader about the financial position of the district.

GASB No. 34 eliminated the terminology of expendable and nonexpendable trust funds and identifies three classes of trust funds:

- Pension and other employee benefit trust
- Investment trust funds
- Private-purpose trust funds

Pension and other employee benefit trust funds account for resources held in trust for the members and beneficiaries of the district's employee benefit plans. Investment trust funds report the resources of a combined investment effort among school districts. Private-purpose trust funds encompass other trust fund arrangements for which principal and income benefit individuals or agencies outside of the school district. Examples of a private purpose trust fund are a scholarship fund or a fund that reports the resources of an awards program, funded by contributions from local businesses to provide small cash awards to qualifying high school seniors.

Districts need to evaluate those activities that have been reported as trusts in the pre-GASB 34 Model to determine if they are trusts for purposes of financial reporting under GASB 34. In some instances, districts will need to include the former expendable trusts in the special revenue fund, i.e., if the resources actually benefit the district and are expendable. When funds are legally restricted to the extent that only the earnings, and not the principal, may be used to benefit the district, those resources are reported in the permanent fund.

There are two required trust fund financial statements under GASB No. 34:

- *Statement of Fiduciary Net Assets*
- *Statement of Changes in Fiduciary Net Assets*

Refer to the *Statement of Fiduciary Net Assets* and the *Statement of Changes in Fiduciary Net Assets* (Exhibits B-7 and B-8), the sample fiduciary fund statements, in the Sample Statements section on the NJDOE web site: <http://www.state.nj.us/njded/finance/fp/gasb34/>.

Unemployment Compensation Trust Funds

When a district elects the reimbursement method (also called the payment in lieu of contributions or pay as you go method, i.e., the state pays the claim and invoices the district for the amount due) for unemployment compensation, the accumulation of funds will continue to be reported in a trust/fiduciary fund in the CAFR using the GASB 34 Model.

Pre GASB No. 34 Agency Funds:

Agency funds are utilized when the school district is the acting agent for other governments, organizations and/or individuals. The fund resources are available for purposes designated in the underlying legal relationships. The financial statement presentation requires a statement of changes in assets and liabilities (i.e. payroll and payroll agency).

It has been learned that certain payroll service vendors are actually controlling the electronic fund transfers of school districts' cash from their payroll agency checking accounts for the purpose of making payments to various governmental and other agencies. This procedure violates the requirements of N.J.S.A. 18A:17-34 and N.J.S.A. 18A:19-1 through 4. School districts are not permitted to delegate control of cash payments to any payroll service vendors. New Jersey Statute (N.J.S.A. 18A:19 et seq.) requires all monies or funds of a board of education, in the custody of the treasurer of school moneys, to be expended by such treasurer. The purpose of this statute is to ensure adequate controls over public monies by local boards of education. Therefore, payment of a district's tax bill by a private vendor that would require access to either the board of education's bank account or use of a signature facsimile would be considered illegal under current statute. The department does not have the authority to waive this restriction. The vendor can perform simple bookkeeping services, such as generating the tax payment check for the board's signature. Local school district auditors must evaluate the specific internal controls in regard to transactions and responsibilities delegated to a payroll service vendor. If such controls are not consistent with the intent of the statutes cited above, the auditor must recommend, in the Auditor's Management Report, that the district revise its arrangement with the vendor to be in compliance with the above cited statutes.

Agency Funds Under GASB No. 34:

Agency funds report resources held and administered by the reporting district in a purely custodial capacity. These funds typically involve only the receipt, temporary investment, and remittance of the resources to external parties. A common example is an arrangement between a student organization and the district by which the district maintains the cash raised by the student organization. Agency funds are included in a separate column in the *Statement of Fiduciary Net Assets*. Since agency funds have no net assets they are not included in the *Statement of Changes in Fiduciary Net Assets*.

As noted under Trust Funds, sample statements for the fiduciary funds are in the Sample Statements section on the NJDOE web site: <http://www.state.nj.us/njded/finance/fp/gasb34/>.